Venture Capital – 4217
Spring Semester – 2018

Instructor: Dan Oglevee
Class: Bus-Fin 4217 (11:10am – 12:30pm)
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Office Hours: By Appointment – 15 Minute Blocks (please schedule via phone or after class)

Course Topics and Goals

Most of us are familiar with transactions taking place within formal Equity and Debt Capital Markets. Inherent within these markets is access to public information and its importance in much of today’s financial research, analysis and quite frankly, gossip.

Often our knowledge of financial trends is formed by what we read in various financial publications or see on CNBC! For example the Internet boom introduced many investors to the IPO market.

Venture Capital (VC) which is a subset of the formal Private Equity Markets is one of the least understood financial markets. Due to its private nature, very little information beyond industry generalities or completed transactions is available. Despite its mysterious nature, Venture Capital remains one of the primary capital sources for both startup and early stage firms.

This course provides a comprehensive look into the inner workings of Venture Capital along with the various skill sets required of first year analysts. The class will include case studies and class discussions augmented by lectures from industry experts.

Course Materials

(1) General course materials can be found online at the Carmen course website.

(2) The course packet which contains the cases/readings is available from Harvard Business School Publishing (HBSP). A link to HBSP and the course packet can be found on the Carmen course home page.

E-mail Communication

If it is necessary to communicate with the class between class sessions, I will send electronic mail. I will assume that you check your e-mail at least once every 24 hours.

Laptops, Cell Phones and Recording Devices

The intellectual capital of the professor and guest speakers are not for public consumption. Laptops, cell phones and recording devices are not permitted in class. The Audio and Video Taping of lectures is strictly forbidden.
Teams

Each case/reading should be analyzed by a student team. During the first week of class, students will form teams of five unless the instructor deems a different team size is warranted. Formation of teams will be left to your discretion, but I encourage you to include some variety in terms of gender, ethnicity, nationality, work experience, etc. If you need motivation beyond the opportunity to learn from classmates with different experiences, recognize that the teams you work with on the job usually include such diversity.

Teams are to work independently on the cases/readings. Reports, spreadsheets or class notes from students who took the class in the past are strictly off limits. In class, team members should sit in adjacent seats to facilitate discussion and to help me learn the teams.

Class Preparation

Thorough preparation—by students and instructor—and active participation are essential to a successful case course. Learning comes from struggling with the issues outside of class, then discussing the conclusions (and the struggle) in class. Unprepared students personally miss out on most of the learning and also cheat their classmates because they cannot contribute fully to the learning that occurs in class.

You will be given some preparation questions to help guide your analysis of a case/reading. These questions are not designed to be comprehensive, and I encourage you to explore relevant issues beyond the questions in the guidelines. Depending on how the class discussion unfolds, we may talk about some of the study questions but not others. At a minimum, each team should address the study questions prior to class, and each student in the group should understand the team’s analysis and decisions. Print enough copies of your analysis that each team member can participate fully in class—one copy per student seems to make sense.

Virtually every case requires an “answer” or a decision, and you should arrive in class prepared to explain and defend your decision. It is unacceptable to arrive in class without having made a decision, and statements like, “There wasn’t enough information,” will be scoffed at publicly! Decisions must be made every day with less information than one would like to have.¹

To encourage preparation and facilitate class discussion, students will be called on in class to share their insights. During lecture/discussion sessions, students are expected to have completed the assigned reading before class, and I will likely call on students during these sessions also.

Attendance

Students are expected to attend class and to arrive on time. This is much more important in a case-oriented course than in a lecture-oriented course. To a significant extent, the value you get from the course depends on your presence in class, and your classmates’ opportunities to learn from your insights depend on your presence in class.

Grading

For purposes of assigning final grades for the course, approximate weights will be the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Contributions in class</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm exam</td>
<td>20%</td>
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<tr>
<td>Final project</td>
<td>20%</td>
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<tr>
<td>Final exam</td>
<td>30%</td>
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<tr>
<td>Key Lessons Worksheet</td>
<td>5%</td>
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<tr>
<td>Peer review</td>
<td>5%</td>
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<tr>
<td>Peer Class Contribution</td>
<td>½ letter grade</td>
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¹ It is perfectly fine to explain your decision based on the information available, and then to state the additional information you would like to have and how you would use it.
The distribution of course grades in the past has been roughly 15% A, 20% A–, 35% B+ and 30% B or lower. Two things tend to produce course grades of B or lower: (1) lack of contributions to class discussions, or (2) low peer review scores due to lack of contributions to the team.

**Peer Review**

One bothersome aspect of group work is that it is difficult for the instructor to assess each individual’s contribution to the team’s output, and this may tempt some students to free ride on the efforts of their teammates. Peer review will be used to allow students to provide useful information about teammate contributions, to help avoid the free-rider problem and, if some students bear more than their share of the load, to reward those students. Each student will have a total of 200 points to award to the other members of his or her team. The points that you allocate should be proportional to the individual’s contribution to your team over the course of the semester/term, as you perceive it. For example, if you think that Teammate A contributed twice as much as Teammate B, then Teammate A should get twice as many points as Teammate B. Since each student awards 200 points to teammates, the average score received from peer review is also 200 points. The peer review forms will be completed at the end of the course. The form must be signed (it is not anonymous), but will be kept confidential. That is, students may be told the total number of points awarded to them by their teammates, but they will not be told the points given by individual teammates. Since peer review is an important component of course grades, please take this responsibility very seriously—a frank and honest evaluation is expected.

**Class Contribution Components**

In order to emphasize the necessity to be prepared for and to contribute to each class, class contribution will comprise a significant portion of your grade. As is the case with real world work environments, you are judged not by what you know but by what you contribute. Even if you feel that you know the material, unless you share your insights with the class, I cannot adequately evaluate your preparedness and contribution. Students are never penalized for making comments which don’t appear to be the “right answer.” It is only through consideration of many diverse opinions and viewpoints that we will move toward a greater shared understanding of the multi-dimensional material which this course entails.

There are three components of the class contributions grade: Student responses to core case analysis questions, overall Instructor evaluation, and overall peer evaluation.

**Student Answers to Core Case Analysis Questions:** The Socratic Method will be used to organize case discussions. For each case/reading discussed during the course, I will have a number of critical questions that should be considered as a starting point in analyzing the case/reading. I will randomly choose students to answer each one of these critical questions should there be no initial volunteers to open the class discussion. When I call on a student, that student has three options:

1. **Answer the question.** In answering the question, the student presents his/her analysis of this aspect of the case/reading. *(Please note: in general, you should be able to identify the key issues, problems and opportunities facing the central case/reading protagonists, to articulate and evaluate alternative approaches to problems, and to describe the course of action that you recommend and the reason for your recommendations)*. It may be the case that the student does not agree that the question asked is an important question. If this is so, a discussion about what constitutes an important question is entirely appropriate.

2. **Pass.** Each student has the opportunity, one time during the course, to pass on answering a question. We all have complex lives, and this opportunity acknowledges that complexity. However, you can only pass once. If you are absent (unexcused absence) from class, it is counted as a Pass. If you pass a
second time (either by attending class and answering “Pass” when called on or by not attending class [unexcused absence] your class contribution grade will be adjusted down.

(3)  **Fake it.** If a student has not read and analyzed the case/reading, he/she may try to bluff through the questioning. Faking may appear to be a particularly attractive alternative if a student has read, but not analyzed, the case/reading. However, faking it is a very risky strategy. If I determine that a student is faking it, that student’s class contribution grade will suffer accordingly.

**Overall Instructor Evaluations:** Of course, students who are not asked the core questions for a particular case/reading are free to volunteer their insights and analyses to the ongoing discussion. The quality of this volunteer contribution is the primary determinant of a student’s overall peer evaluation and Instructor evaluation for class contribution scores. I will evaluate each person’s contribution for each and every class and keep a running score on class contribution. You are welcome to check anytime to see how you are doing.

**Overall Peer Evaluations:** Towards the end of the course, I will distribute a Peer Class Contribution Evaluation form. On this form, students will be asked to list (number to be determined by class enrollment) students in the class who, in their opinion, consistently demonstrated excellent class contribution throughout the course. Students may not list themselves on this form. For accounting purposes, each student will need to sign their Peer Class Contribution Evaluation form which will be kept confidential. The Peer Class Contribution Evaluation form must be returned to me no later than the last scheduled class of the course. Students who fail to turn this form in on time will not be eligible to receive a bonus class contribution grade.

**Class Contribution Evaluation Criteria**

I will assign points for each student’s contributions in class. These points will be based on the quality and to a degree the quantity of the student’s classroom questions, comments, and responses to questions posed by the instructor and classmates. As mentioned earlier, at an absolute minimum, each student is expected to attend class, be familiar with the case and to understand his or her team’s analysis and conclusions—evidence to the contrary will be negatively viewed. Here are a few examples of class contributions that will be positively viewed:

- Carefully explaining the major factors affecting a decision, how they were evaluated and how the different factors were weighed.
- Providing an insight about a company’s operations that was not provided in the case discussion but was gleaned from the data.
- Describing a situation you have experienced or read about that bears on the discussion.
- Pointing out an error or weakness in someone’s argument/decision, providing an alternative approach and explaining why the alternative should be preferred.
- Exploring an issue that arises naturally from the case but was not raised in the case itself or in the study questions.
- Sharing any sensitivity analysis or business models that were done in Excel.

If you are unwilling or unable to voluntarily contribute to class discussions on a regular basis, I urge you to consider taking a different class. This course, by its nature, depends on lots of student input in class to maximize learning, and substantive contributions are required to earn a good grade for the course.
Food for Thought

As mentioned earlier, students will be called on during class. Consider it your own personal opportunity to contribute to your classmates’ education and to develop your ability to think on your feet and speak extemporaneously. Mistakes will be made, but we all learn from our mistakes, and from others’ mistakes.\(^2\) I recognize that this creates a certain level of tension for some students, and I will try to be sensitive to anxiety-induced brain cramps. This is an opportunity to gain practice overcoming such anxiety, a skill that will serve you well in years to come.

It is important that different opinions, assumptions and methods of analysis be discussed in class. It contributes greatly to the learning process if, when you disagree with a classmate, you explain clearly what you disagree with, why you disagree, and how you think the decision should be made. This can be done energetically, but with respect for your classmates—belligerence is unnecessary and counterproductive.

Instructor Judgment

Compared to many courses, this course has less emphasis on learning new principles and techniques and more emphasis on application, often in contexts fraught with ambiguity. We continually analyze situations where many questions do not have obvious right and wrong answers. Evaluating student performance is therefore not as simple as deducting points for wrong answers. When assessing the quality of reasoning and clarity of presentation in classroom comments, part of the assessment is related to specific items, techniques and assumptions, but a large part involves judging the quality of the overall “package.” Both types of judgment, and particularly the overall quality assessment, are necessarily subjective.

As a result, grading is more subjective in this course than in many Finance courses, and I want to make sure everyone understands this clearly up front. I strive diligently to be fair and impartial when making these judgments, but it is a fact of life that the judgments must be made.

\(^2\) I can virtually guarantee that the instructor will publicly embarrass himself several times during the course.
January 09 Tuesday (11:10am – 12:30pm)

Class Lecture: Fundamentals of Venture Capital – Part I
Readings: How Venture Capital Works (98611)
(Optional): Class PowerPoint Presentation (downloadable via Carmen)

January 11 Thursday (11:10am – 12:30pm)

Class Lecture: Fundamentals of Venture Capital – Part II
Readings: Risk and Reward in Venture Capital (N9-811-036)
Assignment:

1. What are the Pros of Financing a Business with Venture Capital?
2. What are the Cons of Financing a Business with Venture Capital?

January 16 Tuesday (11:10am – 12:30pm)

Class Lecture: What Does a Venture Capitalist Do?
Case: A Day In The Life Of A Venture Capitalist (E-444)
Assignment:

1. What are the roles and responsibilities of an Analyst, Associate and General Partner
2. What qualities do you think are critical for an Analyst, Associate and General Partner to have?

January 18 Thursday (11:10am – 12:30pm)

Class Lecture: Deal Sourcing and Screening
Case: Venture Capital Deal Sourcing and Screening (E-447)
Assignment:

1. What are the main deal screening criteria that VCs use in initial project selection? How are these criteria different from the ones angel investors may use?
2. How do VCs evaluate project opportunities? What questions do they seek to answer in deciding whether to explore the project in greater depth?
3. How would you describe the Fastforward Ventures experience to date? Its current (as of 2012) condition? How would you classify Fastforward Ventures relative to the universe of VC funds?
4. You are Andrea Morton, a newly minted associate at Fastforward Ventures. How would you accomplish the screening task? What companies to recommend to the partners? To which partner? Which companies to drop? How to present information to the partners?
5. You are Ellen Chang and/or Daniel Stephenson, a partner at Fastforward Ventures. What qualities are important for you in an associate? How would you recommend screening incoming deals?

January 23 Tuesday (11:10am – 12:30pm)

Class Lecture: Pitching a Venture Capitalist
Readings: A Note on Pre-Money and Post-Money Valuation (A&B) (9-801-446)
Case: Canaan Partners – Entrepreneur Pitch Workbook
Assignment:

1. What aspects of a Pitch do you consider to be the most important?
2. In the role of an analyst, what are the top three questions you would want to ask an Entrepreneur?
January 25 Thursday (11:10am – 12:30pm)

**Guest Speaker:** Rich Langdale, Managing Partner – NCT Ventures

**Readings:** How Venture Capitalists Evaluate Potential Venture Opportunities (9-805-019)

January 30 Tuesday (11:10am – 12:30pm)

**Class Lecture:** Due Diligence (Part I)

**Readings:***

(Optional): Class PowerPoint Presentation *(downloadable via Carmen)*

February 01 Thursday (11:10am – 12:30pm)

**Class Lecture:** Due Diligence (Part II)

**Case:** AudienceView (907N06)

**Assignment:**

In preparing this case, please put yourselves in the shoes of Robin Axon.

1. What information provided in the case makes this opportunity appear to be a good investment?

2. What information about the company gives you concerns?

3. What information do you need that you either don’t have or is very sketchy?

4. Identify which issues are the most important to come to grips with; that is, if you don’t get a positive answer, you would not go forward with the investment.

5. How would you go about getting the information you decide that you need?

February 06 Tuesday (11:10am – 12:30pm)

**Class Lecture:** Founder Equity Splits

**Case:** Negotiating Equity Splits at UpDown (9-809-020)

**Assignment:**

1. Was the November agreement a good idea? Is reevaluating the agreement now a good idea?

2. In general, when is it okay for a party to suggest renegotiating an existing agreement?

3. What do you think is key to negotiating equity splits among founders?

February 08 Thursday (11:10am – 12:30pm)

**Case:** Final Project – Part A (Company Presentation)

February 13 Tuesday (11:10am – 12:30pm)

Midterm Exam

February 15 Thursday (11:10am – 12:30pm)

**Case:** Final Project – Part B (Due Diligence)

**Assignment:**

Please put yourselves in the role of an Analyst with an Early Stage VC firm. Based on the presentation in Part A, please conduct your initial due diligence and come up with a list of questions for the management team who will meeting with you in person.

1. Create a model in Excel to calculate what you believe is the current pre-money value of the company
February 20 Tuesday (11:10am – 12:30pm)

Class Lecture: Effective Social Networking

February 22 Thursday (11:10am – 12:30pm)

Class Lecture: Financial Modeling as an Analyst – Part I

February 27 Tuesday (11:10am – 12:30pm)

Class Lecture: Financial Modeling as an Analyst – Part II

March 01 Thursday (11:10am – 12:30pm)

Class Lecture: Financial Modeling as an Analyst – Part III

Case: Goal Seek in Microsoft Excel (W16419)

March 06 Tuesday (11:10am – 12:30pm)

Class Lecture: Venture Capital Formulas and Math

Case: A Note on Valuation of Venture Capital Deals (E-95)

Assignment: Build a basic Venture Capital Model in Excel and perform the Sensitivity Analysis in section 1.3 of “A Note on Valuation of Venture Capital Deals.” Please note, you are welcome to use the Base Model format in section 1.3 or build out your own.

March 08 Thursday (11:10am – 12:30pm)

Class Lecture: Private Equity Securities

Case: A Note on Private Equity Securities (9-200-027)

Assignment:

1. Based on the note you read, what are the advantages of Common Stock over Preferred Stock?
2. From an entrepreneurs perspective what type of preferred stock do you think is the best?
3. From an employee perspective, how would you handle salary negotiations where you are offered options with a 4 year vesting period and a 2 year cliff?

March 13 Tuesday (11:10am – 12:30pm)

Spring Break – No Class

March 15 Thursday (11:10am – 12:30pm)

Spring Break – No Class

March 20 Tuesday (11:10am – 12:30pm)

Class Lecture: Capitalization ("CAP") Tables

Readings: Funding New Ventures: Valuation, Financing, and Capitalization Tables (9-806-058)

Assignment:

1. Create a Cap Table that incorporates three founders with equity splits of 70%, 20% and 10%
2. Add an option pool of 20%
3. Plan for an Angel Round of $500,000 for 20% and then a Series A Round of $1,500,000 for 30%
March 22 Thursday (11:10am – 12:30pm)

Class Lecture: Term Sheets
Case: Term Sheet Negotiations for Trendsetter, Inc. (9-801-358)
Assignment:

1. What are the main differences and similarities between the two term sheets?
2. If you were the entrepreneur and could not negotiate any of the terms in either term sheet which one would you prefer and why?
3. What aspects other than term sheets would you take into consideration when choosing among potential venture capital investors?
4. If you were an aspiring venture capitalist looking for a “blueprint” term sheet to use at your firm, which one of the two term sheets would you use? Why?

March 27 Tuesday (11:10am – 12:30pm)

Class Lecture: Antidilution Clauses
Readings: Note on Antidilution Provisions: Typology and a Numerical Example (9-805-024)
Assignment:

1. What is the difference between a Full ratchet and Weighted Average Anti-dilution clause?
2. Construct a model in Excel to illustrate each scenario and the final share allocation

March 29 Thursday (11:10am – 12:30pm)

Class Lecture: VC Investment
Case: Vermeer Technologies (A): A Company is Born (9-397-078)
Assignment:

1. What decisions did Charles Ferguson make, and what action did he take, from late 1993 through January 1995 to build an enterprise that attracted an offer from a group of venture capital firms to invest $4 million for 51% of the company?
2. As Charles Ferguson, would you agree to the proposed deal?
3. In January 1995, what can go right and what can go wrong for Vermeer? As Charles Ferguson, what would you do to seize the opportunities and mitigate the risks?

April 03 Tuesday (11:10am – 12:30pm)

Class Lecturer: Corporate Venture Capital – Part I
Readings: A Note on Corporate Venture Capital (9-201-036)
Case: Intel 64 Fund (9-800-351)
Assignment:

1. Should Intel accept Partridge’s proposal? Does it satisfy Intel’s goals? What are the risks of implementing the proposal?
2. If you were the CEO of a private company with the choice of several traditional VC capital sources including the Intel 64 Fund, would you be inclined to take money from the fund?
3. As a traditional financial VC, would you want to co-invest with the 64 Fund?
April 05       Thursday       (11:10am – 12:30pm)

**Class Lecture:** Corporate Venture Capital – Part II  
**Readings:** Intel Corporate Venturing (UV1983)  
**Case:** Intel Capital: The Berkeley Networks Investment (9-600-069)  
**Assignment:**

1. Why did Intel decide to invest in Berkeley Networks? Why did Berkeley Networks invite Intel to invest?
2. If you were an entrepreneur, would you want Intel as an investor in your startup? Why or why not?
3. What should Keith Larson do?

April 10       Tuesday       (11:10am – 12:30pm)

**Class Lecture:** Company Exits  
**Guest Speaker:** Kevin Pohmer, Former CEO – Financial Guard

April 12       Thursday       (11:10am – 12:30pm)

**Class Lecture:** Starting a VC Fund  
**Readings:** Identifying and Exploiting the Right Entrepreneurial Opportunity… for You (9-808-043)  
Note on the Private Equity Fundraising Process (9-201-042)  
**Case:** Orchid Partners: A Venture Capital Start-up (9-804-138)  
**Assignment:**

1. Does Orchid Partners meet the criteria for a good business opportunity?
2. Is Orchid Partners a good opportunity for Todd?
3. Should the partners close on and start operating the fund, even if they haven’t met their size target?

April 17       Tuesday       (11:10am – 12:30pm)

Final Project – Part C (Team Investment Recommendation) Class Presentations

April 19       Thursday       (11:10am – 12:30pm)

Final Exam – Same Classroom and Time as Your Current Class
Administrative Points or “The Fine Print”

Notification of Scores and Final Grades: The results of any graded materials, including final grades, WILL NOT be given by the instructor to individual students via phone, US post, e-mail, or verbally in person.

Materials submitted for grading throughout the course will be returned to students generally within one week after submission. Students with invalid absences on the return date must retrieve their materials at the instructor’s office.

Students may obtain their final grades online by accessing the University Registrar link.

Disability Services: The Office of Disability Services verifies students with specific disabilities and develops strategies to meet the needs of those students. Students requiring accommodations based on identified disabilities should contact the instructor at the beginning of the course to discuss his or her individual needs. All students with a specific disability are encouraged to contact the Office of Disability Services to explore the potential accommodations available to them.

Appeals: Grading errors should be corrected. Appeals must be in writing within two weeks after the graded work is made generally available—not the date you first look at it. If the end of term is within the two-week period, the two weeks will start at the beginning of the next semester. In general, the entire document will be checked for grading errors, and correcting these could either raise or lower the overall score.

Academic Misconduct: Cheating is grounds for failing the course and additional sanctions. In accordance with Faculty Rule 3335-31-02, all instances of alleged academic misconduct will be reported to the Committee on Academic Misconduct, which recommends appropriate sanctions to the Office of Academic Affairs.

Absences & Make-Ups: In general, work related conflicts or overlapping requirements due in other classes are NOT valid excuses for missing assignments. In cases of valid family, health or safety emergencies, students must contact the instructor PRIOR to the assignment deadline. Unexcused absences will result in a grade of zero (0) for any missed assignments.

It is the sole responsibility of absent students to obtain any missed class notes, handouts, etc. In general, the instructor will not provide missed handouts to absent students during subsequent class periods. In addition, the instructor will generally not discuss missed material with an absent student until that student can provide evidence that (s)he has worked diligently at understanding the material missed.

Waitlisted Students: Students who are waitlisted and seek to enroll must attend class through the first class session of the second week of the semester/term. After that date, students who have not been added will not be enrolled and may not continue to attend the class. Waitlisted students should contact either the Fisher Undergraduate Program Office or the Department of Finance office if they have any questions regarding the waitlist process.

Disenrollment: University Rule 3335-8-33 provides that a student may be disenrolled after the third instructional day of the semester/term, the first Friday of the semester/term, or the student’s second class session of the course, whichever occurs first, if the student fails to attend the scheduled course without giving prior notification to the instructor.